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Fuel Focus

*Understanding Gasoline Markets in Canada
and Economic Drivers Influencing Prices*

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Canada

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National Overview

Retail Pump Prices Decreased 1 Cent per Litre from Last Week

For the week ending May 13, 2014, Canadian average retail pump prices declined from the previous week by 1 cent per litre to \$1.36 per litre – a five week low.

Pump prices were driven down by lower wholesale gasoline prices across North America, which in turn weakened with lower crude oil prices.

Diesel fuel prices decreased by nearly 2 cents per litre from last week to \$1.37 per litre. This represents an increase of 13 cents per litre from the same time last year. Furnace oil prices declined to \$1.28 cents per litre compared to the previous week, up 12 cents per litre from a year ago.

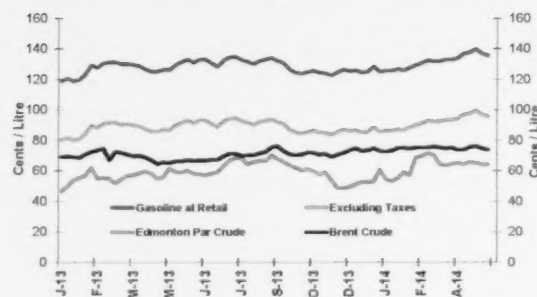
Recent Developments

- Edmonton Par Prices Discontinued:** As of May 1, 2014, Edmonton Par prices are no longer available. The Canadian Light Sweet (CLS) crude blend is traded daily on the Net Energy Index and is considered a benchmark crude for the Canadian crude market. Net Energy Index reports NYMEX's WTI future settlement prices, and the differential between CLS and WTI; NRCAN calculates the CLS price from this information. The two prices – Edmonton Par before May 1, 2014, and CLS afterwards, are considered similar – both are light sweet crudes priced at Edmonton.

- Short-Term Energy Outlook:** Led by falling crude oil prices, the projected U.S. annual average regular gasoline retail price, which fell from \$3.63/gal in 2012 to an average of \$3.51/gal in 2013, will continue to fall to \$3.48/gal in 2014 and \$3.39 in 2015. Diesel fuel prices, which averaged \$3.92/gal in 2013, are projected to average \$3.87/gal in 2014 and \$3.78/gal in 2015. EIA expects that the monthly average regular gasoline retail price, which was \$3.66/gal in April, will peak at \$3.72/gal in May and then fall to \$3.51/gal in September. (Source: U.S. Energy Information Administration)

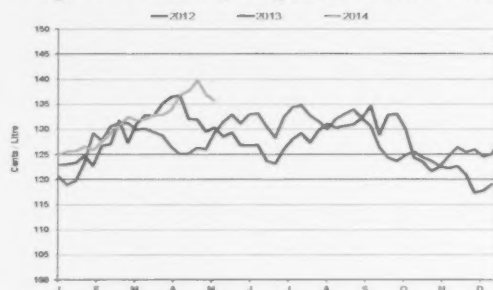
- Suncor Energy's Refining and Marketing Operations:** Suncor Energy completed major improvements to its refineries, greatly increasing the amount of oil sands crude that can be refined, while improving environmental performance. The Edmonton refinery has been optimized for processing oil sands crude feedstocks. At the Sarnia refinery, a \$1 billion investment in new equipment has enabled the production of lower sulphur diesel fuel and improved operational efficiency. At the Commerce City (Colorado) refinery, a \$540 million upgrade has enabled the refinery to meet clean fuels regulations and handle a wider range of oil sands products. (Source: Suncor)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)



Edmonton Par prices as discontinued as of May 1, 2014. Please see the explanatory note under Recent Developments.

Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

| ¢/L | Week of: | Change from: | |
|-------------|------------|---------------|-----------|
| | 2014-05-13 | Previous Week | Last Year |
| Gasoline | 135.7 | -1.1 | +6.4 |
| Diesel | 137.1 | -1.5 | +13.0 |
| Furnace Oil | 127.9 | -0.9 | +11.6 |

Source: NRCAN

Natural Gas Prices for Vehicles

| 2014-05-13 | ¢/kilogram | ¢/L gasoline equivalent | ¢/L diesel equivalent |
|------------|------------|-------------------------|-----------------------|
| Vancouver | 114.6 | 75.6 | 78.4 |
| Edmonton | 115.1 | 75.9 | 78.7 |
| Toronto | 128.3 | 84.6 | 87.8 |

Source: ¢/kg Kent Marketing Services Limited

In this Issue

| | Page |
|---|------|
| National Overview | 1 |
| Recent Developments | 1 |
| Retail Gasoline Overview | 2 |
| Wholesale Gasoline Prices | 3 |
| Gasoline Refining and Marketing Margins | 4 |
| Crude Oil Overview | 5 |





Retail Gasoline Overview

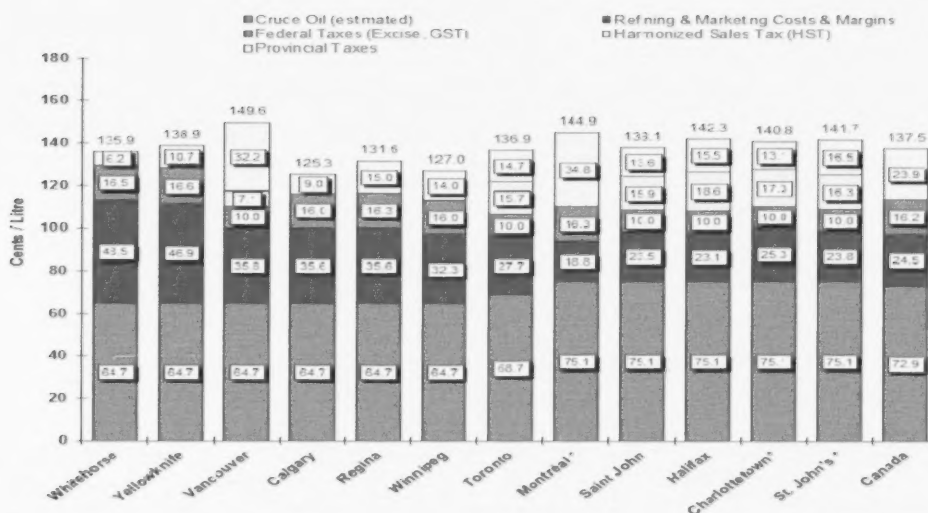
The **four-week average** Canadian pump price in selected cities across Canada was \$1.37 per litre for the period ending May 13, 2014. This represents an 11-cent-per-litre increase compared to the same period in 2013.

For the period ending May 13, 2014, the **four-week average** crude oil price remained unchanged at 73 cents per litre. The crude oil price component of gasoline is 12 cents per litre higher than at the same time last year.

Average retail gasoline prices in Western centres increased by 1 cent per litre to \$1.33 per litre when compared to the previous report and ranged from \$1.25 to \$1.50 per litre. Average prices in Eastern centres rose by 1.5 cent per litre to \$1.41 per litre from the previous week and ranged from \$1.37 to \$1.45 per litre.

The refining and marketing costs component rose to 24 cents per litre. Compared to a year ago, margins are down by 2 cents per litre.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (April 22 to May 13, 2014)**



Source: NRCan

* Regulated Markets

Note: Toronto crude oil cost includes pipeline tolls of \$4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

Refining Margin Calculations

The refining margins shown in Figures 3 and 5 of the Fuel Focus report should be viewed as rough estimates. They are based in part on crude oil prices published by oil companies or from publicly available sources. As a result of our Fuel Focus work, which includes ongoing monitoring of crude oil and petroleum product markets, we have knowledge about the crude oil feedstock costs for refineries in various regions of Canada. For example, it is our current understanding that refineries east of Ontario purchase mainly light crude, at prices closely linked to the price of Brent. Brent prices are widely reported. For refineries in Ontario and west, it is our current understanding that light crude purchases are at prices closely linked to Edmonton Par prices, which we track. Some western refineries also process heavy crudes. Heavy crude prices are different – usually lower.

The refining margin is calculated as the difference between the price at which the refiner sells refined products, less the price at which the refinery bought crude oil feedstock. In particular, our calculation of refining margins is simply the relevant regional wholesale gasoline price, minus the relevant regional crude feedstock price. As actual individual refinery purchases of crude feedstock will differ somewhat from these assumptions, we caution that our refining margin calculations are rough estimates, for indicative purposes only.

We have in previous issues of Fuel Focus examined these questions in more detail in Supplements on October 7, 2011, at: <http://www.nrcan.gc.ca/energy/fuel-prices/gasoline-reports/4721#sup> and on March 9, 2012, <http://www.nrcan.gc.ca/energy/fuel-prices/gasoline-reports/4741#supsup>



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Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 84 to 91 cents per litre in select centres for the **week of May 6, 2014**. Overall, compared to the previous week, Canadian and American centres recorded price decreases of 3 cents per litre to increases of 2 cents per litre.

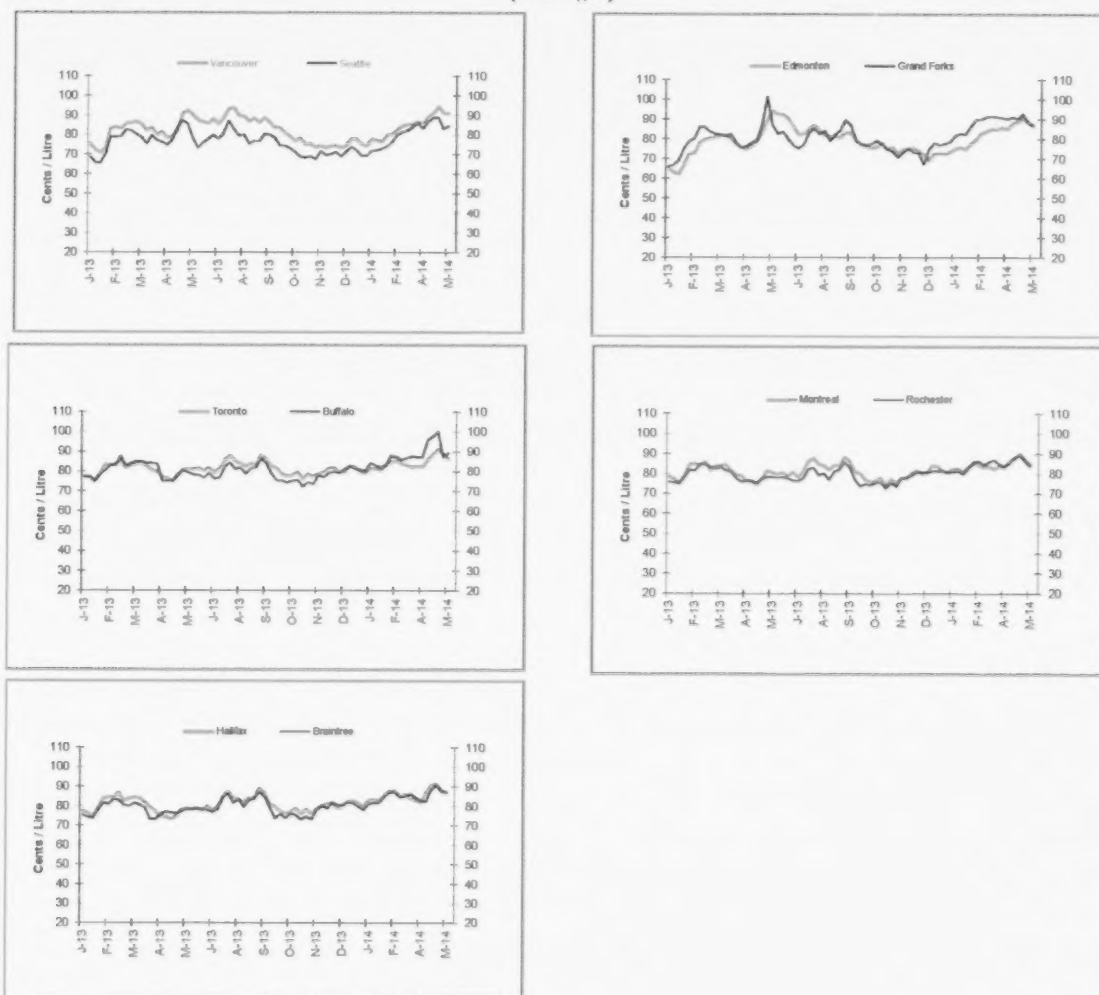
Changes in wholesale gasoline prices in Eastern markets of both Canada and the United States, when compared to the previous week, ranged from an increase of 2 cents per litre to a decline of 3 cents per litre. Prices for the period ended in the 84 to 89 cent-per-litre range.

Wholesale gasoline price changes in Western centres ranged from an increase of more than 1 cent per litre to a decrease of 2 cents per litre, with prices ending the period between 85 and 91 cents per litre.

In the last **two weeks**, wholesale prices in all Canadian and American selected centres have increased in the range of 4 to 10 cents per litre.

Overall, wholesale gasoline price changes range from an increase of 12 cents per litre to a decrease of 3 cents per litre from last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending May 6, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide



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Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

Overall, refining margins have increased steadily in the last nine weeks. This is a reflection of the supply constraints in gasoline production, and a drawdown of gasoline inventories throughout North America as demand rises with the beginning of the summer driving season and the switch to more costly summer-grade gasoline.

Refining margins are slightly higher by less than 1 cent per litre at the national level, compared to the same period last year.

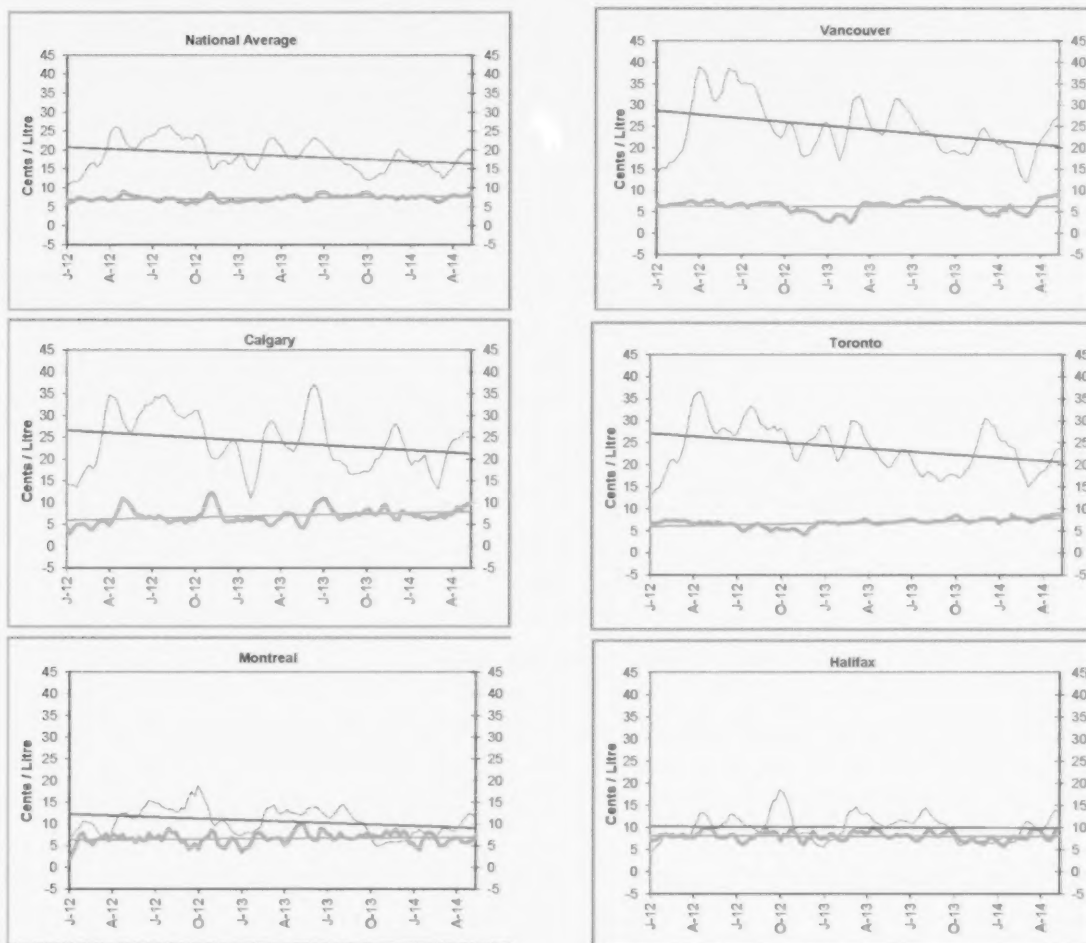
Nationally, marketing margins, defined as the pump price, excluding all taxes, minus the wholesale or rack price, rose to 9 cents per litre. This represents a 1 cent per litre increase from the same period last year. Marketing margins for the five centres registered between 7 and 10 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins

Four-Week Rolling Average Ending May 13, 2014

----- Refining Margin

—— Marketing Margin



Source: NRCan





Crude Oil Overview

Global Crude Oil Prices Decline

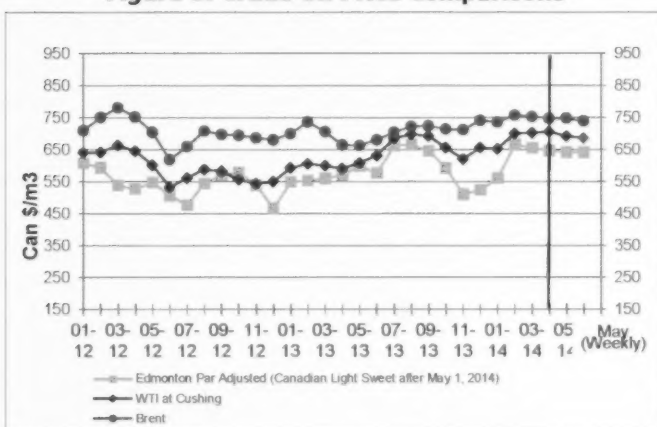
For the week ending May 9, 2014, crude oil prices averaged between \$641 and \$739/m³ (\$US94 to \$US108 per barrel). All three crude oil benchmark prices moved downward in the range of less than \$1/m³ to \$9/m³ (\$US+0.65 to \$US-0.54 per barrel) for the week under review.

The price differential between Brent and WTI stood at \$53/m³ (\$US3 per barrel). The Canadian Light Sweet differential with Brent stood at \$97/m³ (\$US14 per barrel) during the same period.

Brent crude oil prices declined on concerns that the Russian-Ukraine conflict could push Russia to reduce oil exports if Western European sanctions are imposed.

U.S. crude oil inventories remain at a relatively high level with the increasing U.S. tight oil production further moderating crude oil prices.

Figure 6: Crude Oil Price Comparisons



As of May 1, 2014, Edmonton Par prices are no longer available. The Canadian Light Sweet crude blend is traded daily on the Net Energy Index and is considered a benchmark crude for the Canadian crude market. Net Energy Index reports NYMEX's WTI future settlement prices, and the differential between Canadian Light Sweet and WTI; NRCan calculates the Canadian Light Sweet price from this information. The two prices – Edmonton Par before May 1, 2014, and CLS afterwards, are considered similar – both are light sweet crudes priced at Edmonton.

Changes in Crude Oil Prices

| Crude Oil Types | Week Ending: 2014-05-09 | | Change From: | | | |
|----------------------|----------------------------|--------------|--------------------------|--------------|--------------------------|--------------|
| | | | Previous Week | | Last Year | |
| | \$Can/ m ³ | \$US/ bbl | \$Can/ m ³ | \$US/ bbl | \$Can/ m ³ | \$US/ bbl |
| Canadian Light Sweet | 641.63 | 93.59 | -0.15 | +0.65 | +47.25 | -0.34 |
| WTI | 685.59 | 100.00 | -6.04 | -0.16 | +77.07 | +3.83 |
| Brent | 738.85 | 107.77 | -9.02 | -0.54 | +77.49 | +3.25 |

In 2013, three percent of Canadian crude was exported to countries outside the United States. The destination for the majority of Canada's crude oil exports outside the U.S. is now Europe.

2013 Value of Canadian Crude Oil Exports to Countries Outside the U.S. (Millions of Dollars)

| Rank | Country | Value |
|--|---------------------------|----------|
| 1 | United Kingdom | \$672.10 |
| 2 | China | \$134.18 |
| 3 | Italy | \$77.38 |
| 4 | India | \$33.23 |
| 5 | Singapore | \$32.12 |
| 6 | Malaysia | \$30.69 |
| 7 | France | \$26.18 |
| 8 | Jamaica | \$0.035 |
| 9 | Turks and Caicos | \$0.029 |
| 10 | Saint Pierre and Miquelon | \$0.003 |
| 11 | Japan | \$0.002 |
| 12 | Hong Kong | \$0.002 |
| Total Value of Exports | | \$1,006 |
| Source: Statistics Canada TRAGs Database | | |

Source: NRCan



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